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THE WRONG OF THE GREAT SURPLUS.

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HAS any one a mind to boast that the income of the United States Government for the fiscal year just closed was nearly ninety million dollars more than the outgo? The preliminary figures of the Treasury are \$86,929,425, which experts reckon will be raised to the larger sum by complete returns. This is surely immense, over 13 per cent. of the total revenue. The net receipts of the Government before the Civil War were at the greatest \$74,056,697 in 1856, and were only \$51,987,455 in 1861, or 58 per cent. of the present excess. The war of the Revolution cost the young Republic in specie \$135,000,000, which sum the collections above the expenditures will exceed at present rates before the calendar shall record 1908. The second war with Great Britain involved the outlay of \$102,993,153, or the equal of the current surplus for fourteen months. The cost of the Mexican War was \$125,447,483, which would be covered by the excess of revenue before December next. The expenses of the war with Spain, which were \$130,000,000, would be offset by the surplus of fifteen months.

We magnify the burdens which foreign armies bring on their peoples; yet the charge to Italy for its army in 1905 was \$66,000,000 or 75 per cent. of the American surplus last year. France pays annually for its army \$148,000,000, Great Britain

\$150,000,000, and Germany \$176,000,000. These sums are spent at home for service, commissariat and arms. Our surplus may be compared with them in amount, but in no other respect, for it buys nothing and pays nobody.

Collections in excess of expenditures have become the rule in this country. Aside from 1904 when \$50,000,000 was disbursed on account of the Panama Canal, a deficit has occurred in only one year since this century began, and that was \$23,-004,728 in 1905. The net surplus since 1900 mounts up to the enormous sum of \$274,196,949, although within that period large reductions were made in internal revenue.

The end is not yet. The surplus, so large in the fiscal year just closed, continues. The growth of population keeps up and carries with it larger revenues to the Government. In June, the collections and the surplus are on the heaviest scale, showing an excess of \$21,878,462, but that is always an exceptional month. In the fiscal year 1908, the receipts promise to outrun the outlay by \$120,000,000. Secretary Shaw's estimate in his annual report was for a surplus of \$58,000,000 in 1907; it is \$32,000,000 more. In the coming months, the elasticity will not be less and will be adequate to offset any changes likely to occur. A falling off in business would be without parallel which should reduce the revenues by 13 per cent. for a year; so that the present surplus can be cancelled only by law. The excess is more likely to increase in volume and in force.

This magnitude is the phenomenon of American finance, a real monster eating into the earnings and savings of the producing millions. What excuse can be presented for such hoards? There is no public use to which they can be put. Congress has been liberal in its appropriations, to which these large collections have added. The nation neither courts nor dreads a foreign war. No debt looms up to be provided for. The national obligations bearing interest which before the Spanish war were \$847,-867,400 are, on the first of the present month, \$894,834,280. The four-per-cents. due this month have been taken out of the way by extension into two-per-cents, and the provision for paying \$36,121,450 in cash on the turn of the year. The Government has the option to pay the fragment remaining of the Spanish war loan next year, but, doubtless, the entire \$63,495,000 outstanding will be required for exchange into two-per-cents. to

serve as a basis for bank-notes. Only by that process can additional securities become available for that purpose. In 1906, Secretary Shaw sold \$30,000,000 of Panama bonds to encourage the increase of bank circulation. Until the three-per-cent. are transferred into twos, that plea will not lead an overflowing Treasury to add to the interest charge by gratuitous borrowing. The long fours are too high for purchase by the department, while the creditors of the nation do not want their bonds not due to be taken up.

The rapid reductions in the public debt from 1870 to 1873 were helpful to the national credit, and gave strength to the financial situation. Such action now is neither practicable nor desirable. The effort to provide gold for specie resumption in 1879 was noble, and its success was due to generous revenue as well as to loans. The vast hoards of the precious metals now in the Government vaults are abundant for every demand, and there is even embarrassment of riches. The Treasury has become a sturdy giant engrossing the money of the citizens.

The excessive receipts congest the Treasury and breed strife on the part of the banks to get them as deposits. Public funds in national banks, which were \$94,481,697 on June 30, 1906, mounted up to \$182,412,808 at the close of last month, held by 1250 institutions. The smaller banks involve much labor in accounts, so a commission is proposed to frame a new plan of distribution, and it is even suggested that the beneficiaries shall be confined to the forty reserve cities or to a central recipient. Meanwhile, the Treasury held a year ago over current liabilities a balance of \$76,289,224, while now its holdings are \$78,585,126, proving that practically the entire surplus has gone into the banks.

Experts reckon \$50,000,000 as a proper balance for current cash, and that surely is quite enough. Then the Treasury carries, itself, \$28,585,000 above all needs. In Government vaults and in national banks, therefore, lies idle of public funds the monstrous sum of \$211,000,000, earning no interest and serving no purpose at all. The claim is urged that public deposits in banks really go back into the channels of business. Treasury officials are high-priced messengers to transfer the people's cash to the banks. Those who pay can better deposit to their own credit, subject to draft at their own pleasure.

At a bankers' State convention, two or three weeks ago, a general panic was predicted unless the revenues, as a whole, should be paid directly to the banks instead of passing through the Treasury as now. The argument is that business cannot afford to have its life-blood drawn away. Far more obvious is it that the people should keep their own money, and the Government extort the least possible amount. In that course is the surest guarantee of safety, the chief bulwark of protection. Probably, disaster, whenever it shall come, will be local and transient, and in single classes, not covering the continent or all consumption and commerce. The ninety or a hundred million dollars a year kept busy by the citizens will bear richer and better fruit than if piled up in banks or Treasury.

No financier, no statesman, would include in a scientific system such a drain from the community without definite object. With prudence and foresight, generous, even lavish, appropriations have been voted; rivers and harbors are improved; public buildings are erected in many cities; far-reaching schemes of irrigation are carried forward; the Isthmian Canal enlists attention; the payment to us of the large indemnity from China is waived; the munificence of the Government has hardly a limit. Is it not high time to heed the concerns of the individual citizen, and let him keep as much as may be of his wages and property?

The defence may be that no such surplus was intended, and that the revenues have gone far beyond calculation. Grant whatever force the plea deserves, and admit that committees and Congress and officials are bound to lean to the side of prudence. The facts are the indictment, and caution may run into folly. The excess of receipts above outgo has been constant, has asserted itself every month, has climbed before the eyes of men as the sun rises from the horizon to the zenith. The question why the surplus has been suffered to attain such huge proportions may pass without answer, as if "it happened so." The pressing inquiry is, Shall it go on into more scores of millions, and what shall be done about it?

In 1836, the revenues outran the expenditures, and Congress, unwilling to enter on broad public improvements, voted to distribute the surplus above \$5,000,000 between the States as a loan. The return was to be in four instalments. Three were

paid, but the fourth, under order of Congress, was never collected, but stands against the twenty-six debtor States on the Treasurer's books as unavailable funds, \$28,101,644. When at later periods collections were in excess of needs, bonds could be bought and the national debt reduced. Now financiers can devise no plan other than to turn the money into the banks, while the proposal to charge interest falls to the ground. The boldest would hardly dare to advocate in words that the Government should collect revenue for the people just to deposit in the banks. The practice seems to daze no one, but all accept it as commonplace finance.

The national Treasury should not be left bare, nor be placed where it should be forced, as in 1893, to borrow at exorbitant rates to maintain the public credit. An ideal system would show always a small balance above current liabilities. Provision may wisely be made against contingent claims and possible perils. It was fortunate that in 1898 funds were at once available to prepare for war, yet bonds were quickly sold for additional resources. In case the Panama Canal is to be built without further loans, that yearly outlay is to be reckoned, as it is in fact included—\$27,196,672—in the expenditures for the twelve months just ended. Other public works and the expenses of the modern navy are not to be omitted. But the limits beyond which it is hardly less than criminal to extort collections from industry and thrift, are plain as our grand mountain ranges.

The country is in distress from lack of capital. Provision must soon be made as usual for moving crops, and stringency is always created at that season. Should the Government, in careless greed, drain the resources on which farmer and trader depend to carry food from the harvest-field to market? The superfluous dollar collected for the Treasury taxes grievously the staff of life. Investors do not now buy bonds of the sort for which they were eager a while ago. A leading banking-house states that, since the first of January last, railroad securities to the amount of \$1,100,000,000 have been authorized. Other corporations are borrowers or seek to increase their capital. Municipalities feel the monetary pressure; even New York City fails to sell more than \$2,500,000 of \$29,000,000 bonds offered to investors who hold off for higher interest. The State

of New York has to remit the tax on its bonds for the barge canal to tempt banks to buy them. The National Government, in its overflowing wealth, saps the resources of the country with jaunty nonchalance, and draws a hundred million dollars a year above its needs, thus crippling the machinery of enterprise and development. In the hands of the people, this money can be set to work, can earn dividends, can multiply itself. The year's surplus is an immense capital even in these days of prodigious operations. Why divert it from the channels where it might irrigate the dry and thirsty land?

No theory of revenue is involved in this matter. The champion of a tariff for revenue only cannot excuse collections beyond current needs. The free-trader must denounce as iniquitous imposts not imperatively required. The protectionist must regard excessive revenues as hostile to his policy. He who deems that the best government is that which governs least must favor the lightest burdens. The man who believes in a liberal paternalism must consider the citizen and oppose waste and extortion. The scientific economist aims at an equilibrium between income and expenses, so far as the fluctuations of business will permit.

In no other nation is such a condition as prevails here conceivable. The current expenditures elsewhere are all that can be borne and public debts roll up. Only the prosperity with which Americans have so long been blessed renders it endurable here. Taxes, however necessary, are a handicap to production and trade. They may make the difference between profit and loss, and reduction in them may serve as a premium to enterprise or as encouragement when clouds arise and as a help over hard places. A useless surplus may become dangerous as well as offensive. The citizen who gladly pays all that the Government really needs, will resent extortionate charges. Sooner or later, he will scrutinize the imposts and draw the line between what is just and what is unjust. He is easily content, but he can be roused to protest and anger.

The idle funds now in vault and bank are nearly or quite twice the cost of any war with a foreign nation in which the United States has ever been engaged. Nerves must be excitable indeed which desire any increase even for a war-chest for emergency. Yet search here and there is made for kinds of taxes not now on the national schedules. If more revenue were needed,

that might be a task worthy of a statesman. Or for academic diversion, the question of substituting an income tax or imposts on inherited estates for customs duties and charges on liquors and tobacco, may deserve discussion. Just now, however, much more gracious is the privilege to devise methods for leaving their capital to fructify in the pockets of the people.

The credit or the blame for the enormous surplus belongs to Congress, not to the Executive Departments, although the Treasury might win honor by exposing the grievance. The House of Representatives originates revenue laws, and adjusts the receipts to the expenditures. Business conditions affect the income, and it is the part of legislators to calculate the proceeds of customs and internal taxes. These, as a rule, always advance unless the statutes are changed. Recessions are temporary and are soon overcome. A proposal to raise the expenditures to the level of the present receipts, just to get rid of the balance, would be little less than treason. Yet the natural tendency is strong to spend what is within reach. More and more it is felt that excessive Government collections enter into the cost of living, lift prices, bear down on every industry, and are a monument of spoil and ravin.

The majority in Congress is accountable for the wrong of the great surplus. The party in control is commended for maintaining the national credit, and it is chargeable for the burdens placed on the great constituency. The weight of those burdens is of more moment than how they shall be carried. The wise legislator will seek to lighten them. Years have been many when the problem was how to raise money enough to support the Government. That time is past. Now the duty is to check the flood which drowns the Treasury. The pessimist will give warning that by general disaster the revenues may be greatly reduced. Surely, the idle funds now hoarded will be adequate to meet any such emergency for a long period. Meanwhile, one aid to prevent mishap will be to let the producer keep his money for use and draw from him for revenue as little as possible.

The Opposition in Congress is more than a body on parade; it is a partner in legislation. Is its duty not to bind the majority to its obligations, to hold down taxes, to compel the enactment of wise laws? Debate over theories is well enough.

Criticism of appropriations outside of one's own district or State is all right. But why let the collectors levy on all the country a hundred million dollars a year as useless to the nation as the extortions of the robbers of the Rhine or of Turkish pashas? The guilt in last analysis falls on Congress, both on majority and opposition.

The surplus is gathered from every shop and house. For the fiscal year just closed, it mulcted each person of the population as it began \$1.04, and each family of four \$4.16. These families could use these dollars on their own account as active capital, to turn a wheel, or pay for food or raiment or education.

Who is there who will stand up before his neighbors and declare that this huge surplus should be allowed to grow for a single month after Congress can act to stop it? The agreement seems to be general that the tariff is not to be revised until after the Presidential election, or a year and a half hence. This crying abuse of wasteful millions can be throttled without waiting for discussion and strife over schedules. The direct way is to cut it off.

Can it be denied that the excess of national revenues is monstrous in amount? No employment is found for it, nor can the piling up of deposits in national banks be defended as a permanent practice, the creation of a stagnant pool never to flow out. The increase of the present hoards is aggravating the evil. No excuse for such a surplus can be discerned in any signs or dangers in the future. The Government does not want the money, while the people do want it badly, for State, corporate, municipal and private purposes. Congress cannot too soon provide for an adjustment between income and outgo.

This can be done by any one of several methods. The simplest and most direct way is by a flat reduction on all present rates of revenue. Controversy that will cause delay must be postponed. Agree on the abolition of the surplus as the first thing to do. Accept the mandate of common sense to collect what is needed and no more. The timid may counsel holding on to a part of the excess. The wiser course will be to wipe it all out, for it will begin to grow again long before the existing hoards can be spent.

The suggestion is natural, to extend the free list by a score of millions or more. If a majority can be rallied for such a

measure, very well; but is that possible? Not a few will insist that tobacco, beer and spirits can easily afford to pay the tax now levied, and that the internal revenue should stand without change. Then objection will be urged that the customs duties should not alone bear the whole reduction, which would take off 37 per cent. from the schedules as they stand. Such diversities force practical legislation back to the plain plan of a uniform discount from all the present charges to an amount equal to the surplus of 1907.

That would be 13 per cent. on the total revenue. Such modification on the tariff and internal revenue combined could not be styled drastic or harmful, while the reduction, if cast on customs schedules alone, would be more radical than has been advocated by revisionists or champions of tariff reform. Under the general discount, the principle of protection would not be challenged.

Is there keen enough sense of the grievance to lead all sides to waive their extreme claims in order to bring relief? It might be desirable to extend the free list or to reduce some schedules more than others. Those who know the methods of Congress cannot expect that either of such schemes can command a majority in House or Senate, or, if at all, only after long contention. Persistence on those lines can only prevent any action. Commission or inquiry can make no clearer the grievous wrong of the surplus. Any theory which serves as buttress for that ought for the time to be set aside. After the yearly balance is brought to a normal, healthful sum, policies and rates, free list and schedules can command the stage.

Two years will elapse before any project of systematic revenue revision can become operative in the natural movement of legislation. Congress must decide whether, for all that period, the monstrous surplus shall draw blood from every vein of production, of consumption and of commerce. Constituents are patient, but, even when thriving and fat, they may kick, like Jeshurun. But higher motives than popular favor are in the scale. What ethical standard justifies the drain on the citizen? No financial defence can be set forth. The pretence is not advanced that the excessive collections are a fine or penalty on the community; for the citizens as a body cannot be subject to indictments. The receipts of the Treasury are pure revenue, and be-

yond the wants of the Government are tainted by exaction and rapacity.

A Tocqueville or a Holst or a Bryce who should inquire into our national finances would wonder at the continuous gathering of such a huge surplus. He might not be surprised at an excess of revenue for one or two years. He would marvel that it should be kept up until the hoards climb above \$210,000,000. He would ask what apology the masters of finance can plead for such a congestion. He would regard the patience of the people who pay as proof of their wealth and patriotism, their faith in the rulers, and, doubtless, as neglect of their personal interests. That, too, will be the verdict of history, for time and distance create the same perspective. Do Americans refer to aliens or the future the decision of a vital matter of current finance? Taxation falls on their backs; collections are extorted from their pockets. They can judge fairly whether they cannot, better than any officials, manage funds which the Government has no use for. Are they so very rich that \$100,000,000 a year is a trifle about which they do not trouble? They cannot be so foolish as not to know that so much capital can be put to more productive employment than to be locked in the cerements of the vaults of the Government or the banks. Possibly, like Gallio, they care for none of these things. The "Almighty Dollar," even counted by scores of millions, may not be worth picking up by them. Yet, in the long run, the American people are ruled by common sense and fair play. Congress will be wise to go forward and not tarry for popular clamor to compel the easing of burdens. Parties cannot hide the exigency. No mystery clouds the demand. The electors pay with alacrity what the Government actually needs; the rest of their resources belongs in their own control. They approve of liberal revenues, while they condemn an exorbitant surplus.

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